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REFORM

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Summary

¶1. (SBU) As the global financial crisis hits Belarus' ailing economy harder month after month, the GOB is trying various methods to counterbalance it, though to little avail. While IMF conditions are being met, independent economic observers generally recognize that only radical market reforms will accomplish necessary adjustments. However, such reforms may endanger the regime's strength and stability and are therefore the least likely to be resorted to. End summary.

¶2. (U) Belarus economic performance in January was poor. According to official statistics, the country's foreign trade volume was $3.1 billion down from $5.1 billion in January 2008. Respective foreign trade deficit numbers were $443 million (2009) and $204 million (2008). Although by the same statistics, Belarus' January GDP and industry growth year-on-year were 4.2% and 1.2% respectively, independent economic pundits attribute these artificial figures to the devaluation of the Belarusian ruble (BYR) in early January.

¶3. (SBU) Head of Stategiya Analytical Center Leonid Zayko finds that the first surge of economic recession has already hit the country hard, with industrial production falling 12-20%, and exports and domestic sales shrinking rapidly. He predicts 12-15% fall in the GDP in the first quarter of the year. In addition, Zaiko expects another wave of recession to hit the country in late summer or early fall (and do so even harder). Former National Bank Governor Stanislav Bogdankevich told the independent media recently that Belarus is on the verge of bankruptcy. He believes "foreign loans used for consumption and patching up financial holes will not halt the crisis as the GOB has chosen the wrong path of economic development."

¶4. (SBU) As reported reftel, Belarus is on track with IMF requirements for the $2.46 billion loan secured at the beginning of the year. While true market reforms are needed, the GOB has undertaken the following steps, some worthwhile, others less so:

-- Sharp and gradual devaluation of the national currency (BYR) by about 36% since the beginning of the year (IMF requirement was a 20.5% devaluation; the BYR remains within the IMF-mandated exchange rate band);
-- Cuts in state salaries and the national budget (IMF requirement);
-- Reduction or removal of some bureaucratic barriers (e.g. easier registration of businesses);
-- "Dedollarization" of the economy, i.e. making sure all payments inside Belarus are made in BYR;

-- Cancellation of a GOB-imposed restricted imports list (allegedly in response to Russian suppliers protests; the GOB, nevertheless, plans to introduce prohibitive tariffs on many non-Russian imports);
-- Provision of loans to major industrial and agricultural enterprises as well as tax holidays, benefits and exemptions;
-- Direct subsidies to certain enterprises;
-- Granting more flexible export policies, particularly in pricing and searching for new niches and markets;
-- Easier licensing (scheduled later this year); and
-- Establishing preferential business conditions for businesses operating in rural areas.

¶5. (SBU) Missing from the list above are comprehensive steps that could bring in more investment, such as transformation of highly restrictive laws on the ownership or land and real estate, imposition of transparent procedures for privatization, and thorough banking reform. Even the GOB recognizes that more is needed. Deputy Economy Minister Tatyana Starchenko told directors of major industrial enterprises March 10 that all measures taken so far are insufficient to give the country's economy momentum it needs to overcome the crisis. Starchenko called for any ideas, recommendations or proposals businesses may have to perfect and streamline the government's anti-crisis policies. She stressed that "the top issue on the government's agenda is the survival of the economy. We are open-minded in looking for ways out of the crisis and discussing proposals".

¶6. (SBU) National Bank Governor Pyotr Prokopovich told Charge March 12 that the National Bank was pressing banks to raise interest rates for Belarusian ruble accounts and drop them for hard currency accounts. (Comment: Some banks are offering more than 12% interest for hard currency deposits;, recognized by most here as clearly not sustainable. End comment.). He also advocates having banks drop their loan rates, which are nearly 20% at some institutions. Regarding an idea posited informally by the IMF that the Belarusian ruble be devalued further, Prokopovich made clear that while such a step might net greater profits from exports to Russia it is not sustainable politically

right now.

Comment

¶7. (SBU) While the open-mindedness of certain GOB officials is certainly welcome, policy continues to be run by those national leaders more interested in political prestige than economic pragmatism. The misdescription of a recent $3 billion currency swap with China as an infusion of hard currency into national reserves only fuels the overconfidence of such persons. As the crisis continues, there will be increasing calls for reform. However, in the absence of economic collapse, the desire to hold on to power and assets will limit the potential for necessary changes.
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